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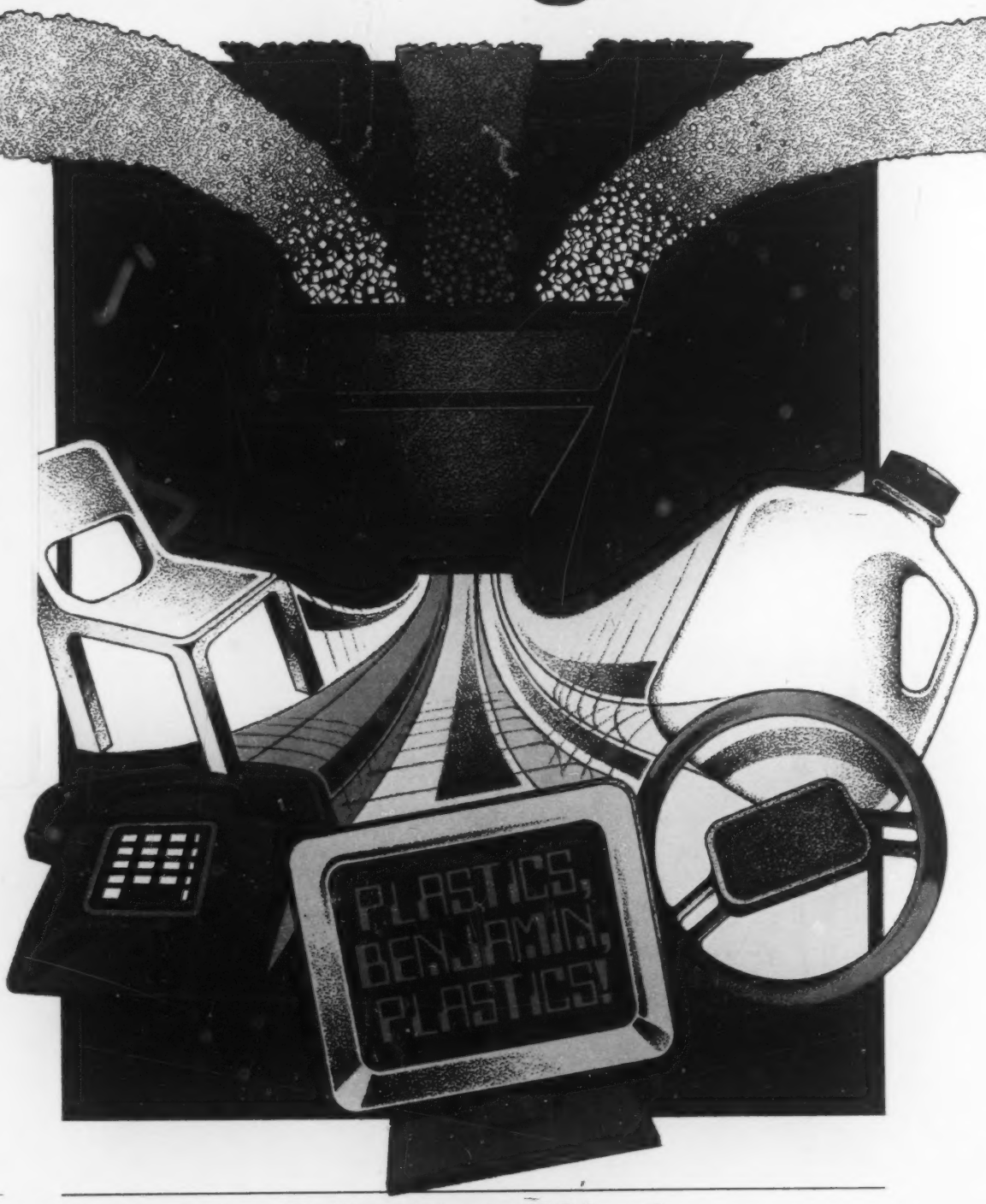

Transportation: Multimodal gets ICC boost

Law: UCC limits vendor clauses

Negotiations: Bids alone are not enough

PurchasingWorld®

Helping you manage the business of buying

November 1987 Vol. 31 No. 11

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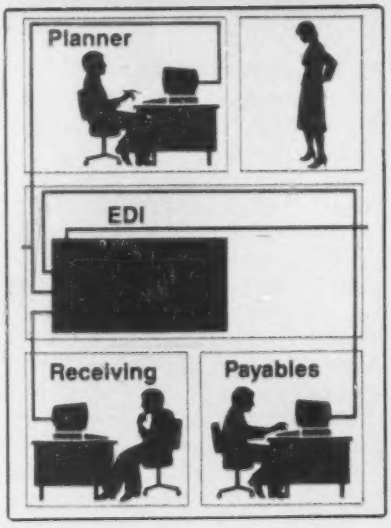

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PW PREDICTS

Robert S. Reichard, executive editor

Price increase fears overdone

Budget for more industrial price increases, which will come in at a faster clip than in 1985 and 1986.

Much of the acceleration rests on two factors: Higher operating rates and rising import prices. Both are likely to be moderate—with little to suggest an inflationary spiral.

This is certainly true of operating rates. The capacity glut of the past few years has been drying up (operating rates are up about two percentage points—to 81%—over the past year), still under the 85% level that traditionally has signalled a sellers' market.

More significant, this operating rate is not likely to rise much above current levels in the quarters in the near term. Recent capital spending surveys indicate that U.S. industry will add 4.5% to the nation's factory potential this year—with 5% looming for 1988, in line with expected production gains. No change in the overall supply/demand equation.

Coming back to import prices, fears seem to be overdone. Some categories—e.g. machinery—have risen significantly. But most U.S. manufacturers have been holding back, hoping to use this price advantage to recapture lost business.

In other product lines, foreign producers continue to absorb the weakening dollar impact by settling for thinner profit margins. We estimate that the import factor may have added one percentage point to price averages this year—hardly catastrophic.

Also, the raw material rise of the past 6-12 months seems to be running out of steam. A spokesman for Wharton Econometrics feels that oil and other basic raw materials will remain more or less flat over the next couple of years.

The fact that producers of many of these commodities, such as steel and nonferrous metals, are showing profits for the first time in years, should also act as a price-rise inhibitor. A lot of closed-down capacity is being reactivated—and could restrain further big increases.

Then there's the Fed. The recent rise in interest rates will likely have some impact, at least slowing marginal demand in capital equipment, construction, and big-ticket consumer items.

And the continuing moderation in wage boosts can't be ignored. Even the Ford auto contract will be adding only 5% a year to Detroit production costs. Moreover, subtract expected productivity gains from the new pact, and unit labor costs should rise less.

These won't prevent some increases. It's no surprise that more than half of surveyed NAPM members are now reporting higher price tags. But keep in mind that most increases are small and selective.

Upshot: Near-term price advances will remain in the 4% range over the next 12 months (overall industrial price average basis). Nor are services likely to rise at any faster rate.

Chemicals

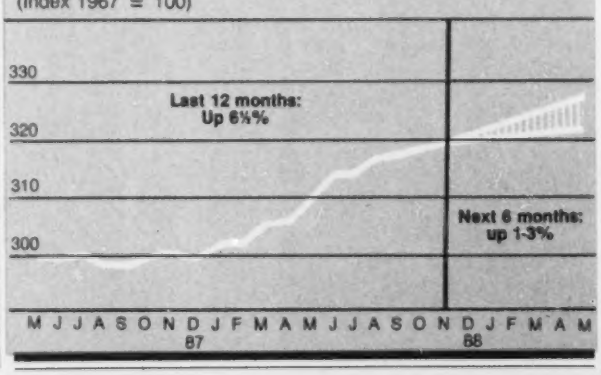
CURRENT SITUATION: A spate of price boosts has been posted for the October-December period. And while not all seem to be holding, overall averages should record their fourth consecutive quarterly advance—a marked contrast to 1986. **Blame the continuing price rise on a combination of factors: higher petrochemical feedstock costs, dwindling excess capacity, strong domestic demand, and a weaker dollar. Inorganics as well as organics are sharing in the overall price advance**—as chlorine, caustic soda, and soda ash all move up.

DEMAND: Chemical output for the year as a whole looks to be up close to 5%. Zero in on some individual subgroups, and even bigger gains are suggested. Plastic resins, synthetic fibers, and organic chemicals should see increases of 8%, 6%, and 6%, respectively. On the other hand, paints will be lucky to equal 1986 levels. **As for 1988, all signs point to similar advances.**

SUPPLY: There's still generally more than enough to go around—though operating rates have tended to rise a bit in recent months. On an overall basis, the industry is now operating at 83% of its potential—up some three percentage points from late 1986 levels. And there has been tightness in some of the popular commodity plastics. **But the prognosis remains good as the industry embarks on a new round of expansion.** Recent surveys suggest 10% increases in capital spending during both 1987 and 1988.

PRICE OUTLOOK: Further increases. With supply/demand balance stabilizing and petrochemicals levelling off, they'll be on the modest side. The overall increase over the next 6 months should average out in the 1-3% range. The longer-run outlook is equally encouraging for buyers. For 1988, little more than a 4-5% increase is anticipated.

Chemical & allied product prices
(Index 1967 = 100)



Environmental outlays rise

Substantial sums will be spent on pollution control and health/safety equipment over the next year or so.

The overall percentage of manufacturers' capital spending earmarked for such non-productive purposes is down from the double-digit readings of the mid-1970s. But the combined pollution-health/safety figure (near 7%) is still something to be reckoned with. Dollar amounts will be up substantially to 17.7% this year and another 5.6% in 1988.

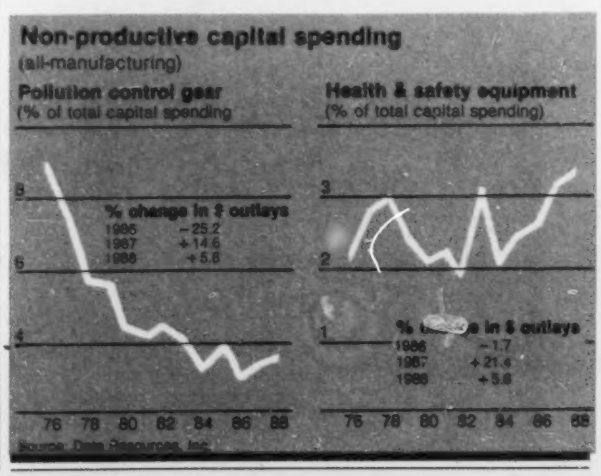
These projections culled from a recently released Data Resources, Inc. (DRI) survey, indicate that double-digit rates will continue to plague a few industries. Thus the chemical sector will probably earmark 13% of its capital spending dollars for these government-mandated purposes next year—with almost-as-big 10-11% chunks anticipated by the petroleum and instrumentation industries.

Zero in on the pollution control equipment and even bigger outlays could be ahead. Reason: Despite a Reagan veto, Congress has passed the Clean Water Act and could possibly approve acid rain legislation soon.

In addition, public concern over toxic waste will keep the heat on business. Not surprisingly, this segment of spending is targeted to jump a hefty 26% this year.

On a dollar basis, the biggest investment overall in pollution control equipment will be in the chemical and petroleum industries where about $1.4 million is expected to be shelled out in each area next year. Nor will nonmanufacturing industries escape unscathed—electric utilities are expected to spend near $1.3 billion on pollution-control devices in 1988.

In the meantime, manufacturers are also increasing their health and safety investment sights. Watch for spending to increase 21.4% and 5.6% in 1987 and 1988.

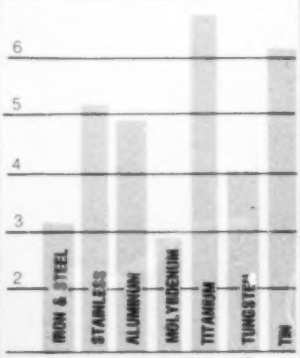


Metal powders

More solid growth lies ahead—with the average annual advance put near 3% over the next few years. These new estimates, supplied by Business Communications Co. of Norwalk, CT, suggest that several metals (stainless steel, aluminum, titanium, tungsten, and tin) will actually exceed this rate—though iron and steel powders (by far the biggest tonnage item) will pretty much follow the overall average. Much of the projected advance assumes gradual development of metal injection molding techniques which are expected to supplement the existing press-and-sinter metallurgy.

Metal powder growth

('87/'92 annual rate)



Source: Business Communications Co

Titanium

Prices are generally higher—as recent increases in aircraft quality sheet and plate and commercially pure plate hold up. Also a new 4% increase has just been posted on premium and rotating grade billet. This should be it for a while in the billet area as the new quotes are guaranteed through next June. On the other hand, cost pressures in the fabricated metal sector continue to build up. Thus basic sponge recently climbed to near $4/lb.

Aluminum

More upward moves here—with producer ingot and billet rising to 82¢/lb and 90¢/lb, respectively. Fabricated metal also continues to move higher—as both aircraft quality products and non-heat-treatable sheet and plate producers post advances. Another sign of basic strength: Worldwide stocks have fallen to 1.6 million metric tons—the lowest level since 1973-74. This is the equivalent of less than six weeks' supply at current consumption rates—some 2½ weeks under the 8½ week normal level. But supplies should be on the increase before too long.

Lead

Figure on relatively weak prices—with quotes probably falling to as low as 35¢/lb by year end. Reason: Increasing supplies and competition from inexpensive European metal. Reinforcing bearish feelings is the fact that the current battery buying season has not been as robust as originally anticipated. Indeed, with battery warehouses overstocked, primary and secondary lead producers describe current demand as "average to low." Nor is

the long-term consumption outlook all that bullish—as new forecasts point to only 1.3% annual increases in Free World demand.

Steel

Still no indication of any leveling off in prices. Thus increases have recently been put in effect for both cold-rolled strip and tinplate. And on January 1, boosts are scheduled for hot-rolled cold bar, cold-finished bar, carbon and alloy plate, and stainless sheet. Behind the continuing trend: Relatively snug supplies, lower imports, and better-than-expected demand. On the latter score, shipments this year are expected to reach 71 million tons. That's up about one million from last year—a lot better than the several-million-ton drop projected at the beginning of the year.

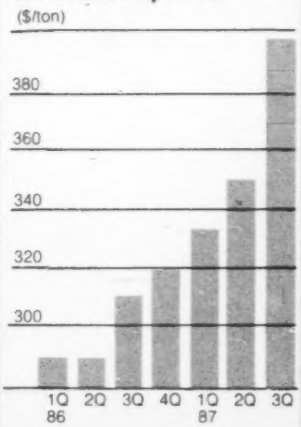
Zinc

Further price declines are likely—as increasing supplies begin to hit the market, both from restarted Canadian Cominco facilities and from additional overseas merchant metal. Best bet: A price decline into the upper 30s range by year end—a far cry from the 47¢/lb peak hit just a few months ago during the long Canadian strike. Relatively sluggish demand is also helping to keep prices under pressure—as chewup by the auto and construction industries (the two largest markets) drops under year-ago levels.

Paper and products

Firming prices are still the order of the day. On the linerboard front quotes are now solidly in the $380/ton range—with further advances likely by early 1988. Newsprint, meantime, is scheduled for another boost (6.6%) in January. In fine paper, high operating rates and strong demand have encouraged a number of uncoated free sheet producers to post increases ranging upwards of $40/ton—enough to bring some transaction prices up to book levels. Multiwall sack quotes are up 6.5-9.5%—with large grocery sacks advancing by an equally impressive 7-11%.

Linerboard prices



Express mail versus fax

Don't write off speedy overnight delivery services—at least not yet—despite the booming fax market. In any case, there is no evidence of any impact—as the "letter category" volume of the fast

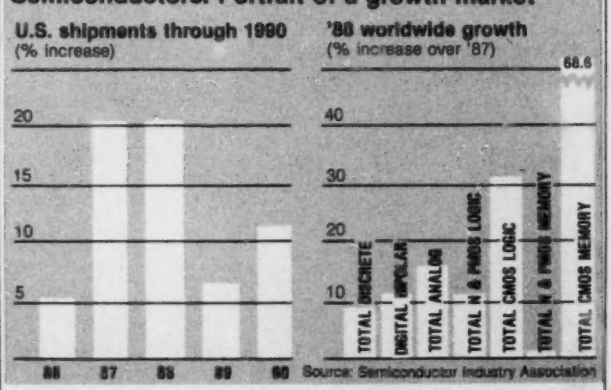
Semiconductor market strengthening

This year's semiconductor industry recovery seems sustainable as the industry seeks to wake from its slumber that began in mid-1984. Indeed, if a new Semiconductor Industry Association projection is anywhere near correct, 1988 will be a carbon copy of the current 12-month period—20% gains in U.S. shipments for both years.

- **CMOS Logic Devices:** Fueled by growth of application-specific integrated circuits (ASICs) and 32-bit microprocessors, dollar billings should grow 40% this year (to $5.7 billion). Another 33% gain in 1988 will lead to a $7.7 billion shipment figure.
- **CMOS Memories:** Shipments which totalled less than $1 billion last year should jump 93% this year (to $1.8 billion) and another 69% in 1988 (to $3.2 billion).
- **N/PMOS Logic:** This $2.8 billion 1986 market will grow 25% this year, 11% in 1988 and less than 2% annually over the following two years.
- **N/PMOS Memory:** A 9% increase this year will be followed by a less than 1% gain in 1988. And in 1989 and 1990 losses of 26% and 22%, respectively, are anticipated.
- **Analog products:** Billings of just over $5 billion last year will grow 18% this year and 16% in 1988. Further 8.5% and 10% gains in 1989 and 1990.
- **Digital bipolar products:** Last year's $4.2 billion shipment total will move up to almost $6 billion by the end of the decade.
- **Discrete devices:** This year's 14% gain (to $7.1 billion) will be followed by 9% and 5% increases in 1988 and 1989. And by 1990 another 7% advance will push totals to near $8.6 billion.

Semiconductor pricing continues to be a phenomenon. As unit sales increase, a product's maturity grows and production yields increase—ergo prices often actually fall as demand increases.

Semiconductors: Portrait of a growth market



Copper

CURRENT SITUATION: The red metal is riding high—up about 35% since the beginning of the year. Behind the pickup are improved demand, low inventories, and the depreciation of the U.S. dollar. Quotes are now close to their highest level in seven years. Add in reduced costs (some of Phelps Dodge's metal can be turned out for only 57¢/lb)—and the industry has suddenly become healthy again.

DEMAND: Markets remain firm. North American producers are said to be booked up through year-end. Even Kennecott's recently reactivated Bingham, UT production is said to be fully committed. The Copper Development Association reports show **shipments of the metal and its alloy running 8% ahead of 1986.** Some impetus comes from Detroit; each car now uses close to 50 lb of copper, vs. 36 in 1980.

SUPPLY: Snugness is suggested by the fact that worldwide stocks have dropped more than 60% since 1983—their lowest level in 13 years. The International Wrought Copper Council figures that new cathode output will fall 100,000 tons short of demand this year. **The long-run prognosis, however, suggests ample supplies**—as output from the Bingham mine and the New Guinea Ok Tedi facility hit the market.

PRICE OUTLOOK: Given the current supply-demand situation, we can project another 3-10¢/lb increase by early next year. Beyond that, some industry bulls are talking in terms of $1+/lb levels. This may be little more than wishful thinking because 1) production costs will remain low, 2) global copper output will be rising, and 3) global industrial production gains (a measure of usage) will be under 1987 rates. **PW equations point to 1988 quotes averaging near 95¢/lb.**

mail business continues to grow at a rapid clip. One reason: There's some disadvantage to using current low-cost fax machines—they use thermal paper which is thin and has a slippery texture. Another limitation to fax: For legal purposes, original documents are often crucial. Nevertheless, some longer-run fax impact on overnight service seems inevitable as improved cheaper machines come to the market in larger quantities (nearly a million units will be clearing the market annually by 1992).

Telephone switching equipment

IBM has cut prices as much as 10% on four new PBX models. Also because the new entries are more reliable and easier to maintain, the overall cost over the life of the switches is probably closer to 20%. In any event, the products are said to take up less pace, require less power, and should be much easier to modify as time goes by and new features become available. But whatever the changes, these products are now quite competitive—with some industry estimates putting the tags at only half of what they were as recently as two years ago.

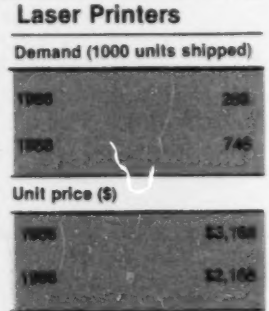
Cellular phones

Plenty of discounting here—with some name-brand models selling for as much as 40% under official list levels. Behind the slide: Increased competition and higher volume output. In any event, the least expensive models now average in the $800-900 range—and are expected to drop off even further (to near $500 by as early as 1990). User costs, however, remain rather high. There's usually a service charge of $25-40/month. Add on per-minute charges for a modest number of calls—and these "operating charges" can range from $150-200/month.

Printers

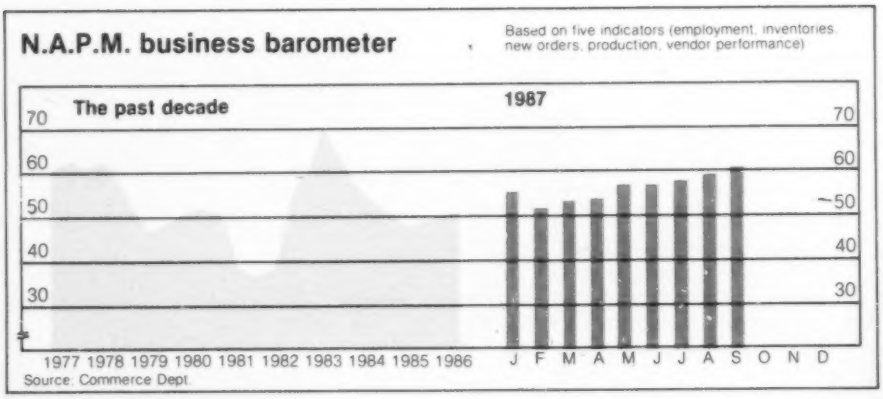
Prices of low-end laser types are beginning to drop sharply. New dollar value and unit volume figures supplied by Dataquest tell the story. Compare the two sets of numbers, and last years' average unit price came to $3,166. By next year the estimated unit value drops by a hefty $1,000—falling to under $2,000. Nor is that the end of the line. Thus a big push is in the making for a $1,000 printer. But given current dollar weakness (print engines come from Japan) this still seems a long way off—with no such low-level entry deemed likely over the next year or two.

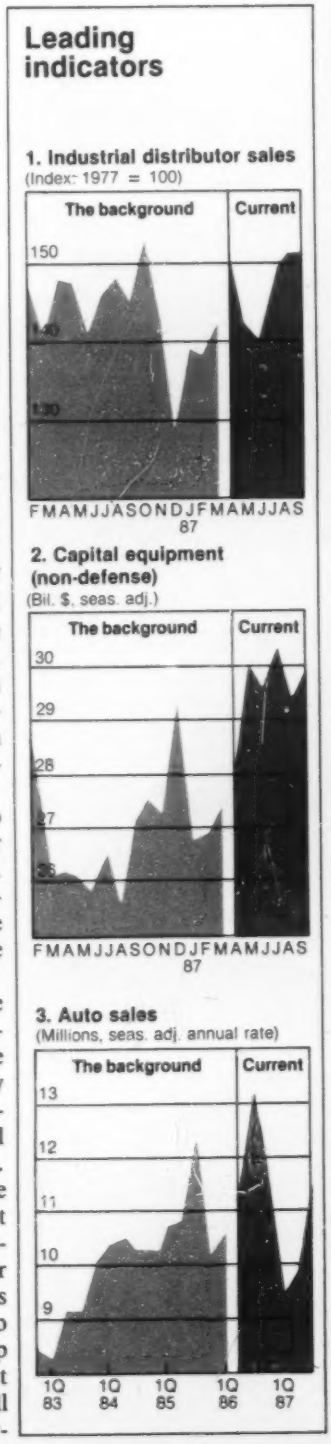
Laser Printers



Source: Dataquest

BUSINESS DATATRAK


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1987
70
60
50
40
30
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
J F M A M J J A S O N D
Source: Commerce Dept.



KEY ECONOMIC TRENDS

Fourth quarter looks rosier

This final quarter in 1987 is turning out better than anticipated.

The reasons: 1) a pickup in export volume, with perhaps some fractional decline in imports; 2) continuing relatively strong consumer buying, and 3) a modest increase in inventories to meet expanding sales.

Judging from key business indicators, this pickup will spill over into early 1988. Thus the NAPM Business Barometer (a yardstick of activity one or two quarters out) has moved up over the 60 mark.

This marks the 14th consecutive month that the barometer has registered above 50—a level that indicates the economy is expanding.

Robert J. Bretz, chairman of the NAPM Business Survey Committee that generates this report, notes that the year-to-date index has averaged out at 56.6—which for a full 12-month period is consistent with a 3.8% increase in real GNP.

Optimism is also spreading to the business community. The story on the following page, for example, indicates that the nation's top corporate executives are becoming increasingly positive on the economy—with more than three out of four now expecting an increase in incoming orders over the current quarter.

The bullish business assessment is supported by relatively strong industrial distributor sales, currently running about 7-8% above early 1987 levels (top chart, right).

Moreover, most of the industrial distributor sales gain is real. Prices of these products have risen less than 1% over the last year.

Capital equipment is another sector showing unanticipated strength. Note (from the chart top, center) that incoming civilian orders here, too, are running well ahead of early 1987 levels. Some of this represents improved export business. But the lion's share is domestic, indicating that American firms are lifting their investment sights along with their new-found optimism.

This optimism also seems to be spilling over into the consumer area. The Conference Board reports three consecutive monthly advances—close to a 15-year high.

To be sure, there have been some disappointments. Auto sales in the third quarter ran at only an 11.5 million unit seasonally adjusted annual rate (chart, top right).

But even in autos there are signs that things might be picking up. The Conference Board consumer confidence survey shows that individuals' plans to buy vehicles picked up considerably over the past month—to 8.4% of all surveyed households ver-

sus the 7.1% 30 days earlier.

What does it all add up to, then? Right now the combination of ordering, buying and general optimism suggests that industrial production will advance at near a 4% annual rate into early 1988.

Fleet car costs under scrutiny

Strategies and policies on the handling of fleet cars continue to change—and the emphasis now seems to be on ways to have employees share more of the expense burden. Some of the latest trends include: 1) more reliance on employee-supplied vehicles; 2) some decline in the number of businesses permitting personal use of company-supplied vehicles, and 3) a significant increase among firms that penalize employees for accidents and traffic violations.

According to Runzheimer International, which surveyed more than 2,000 North American fleet operations, some 12% of the respondents now have employee-provided fleets—up 5% from two years earlier. The majority of firms, however, still rely on company-owned or leased fleets, while a fair number opt for a combination of all three forms of ownership.

The study, which covers more than 600,000 vehicles, also notes that insurance rates continue to climb. Increases are more prevalent in company-provided fleets than in employee-provided ones. A Runzheimer spokesman says "this constrast in cost experience is a significant reason why some firms have switched to an employee-provided program."

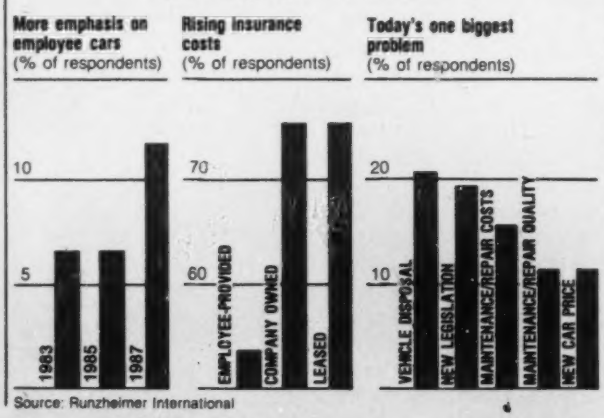
Nevertheless, attempts are being made to constrain insurance costs in company-provided fleets, too. Some of the approaches are: 1) new risk management and fleet safety programs; 2) increased deductibles; 3) self-insurance programs; and, 4) improved maintenance to ensure car safety and performance.

The main business car problem today is getting rid of the vehicle (21% of the respondents dubbed this the key headache). One probable reason: a continuing soft used car market. Other problems, in descending order of mention: new government legislation (19%), maintenance/repair cost (16%), maintenance/repair quality (12%), and new car prices (12%).

Other key findings of the survey:

- The average insurance bill last year came to $600—nearly double the $324 figure of just two years earlier.
- The most popular company-provided car: a 4-door intermediate with front-wheel drive and a 6-cylinder engine. Most popular options: air conditioning, automatic transmissions, power steering and brakes, radio, cruise control, and all-weather radial tires.
- The median replacement cycle: 36 months, 60,000 miles.

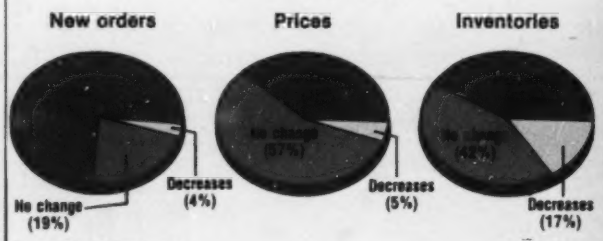
The changing fleet car scene



Source: Runzheimer International

The fourth quarter outlook

(% of factory executives anticipating changes vis a vis a year ago)



Source: Dun & Bradstreet

Execs say 1988 looks O.K.

The nation's top manufacturing executives remain bullish on near-term business.

Judging from a new Dun & Bradstreet survey, corporate America's top brass are even more optimistic than they were three months ago. During the current quarter, for example, 77% of survey respondents said they expect new factory orders to increase over last year's rates. Six and three months ago only 70% and 73% of respondents believed orders would be up.

Equally significant, most of the remaining respondents see no change—only 4% actually anticipate a slower rate of incoming orders.

Factory orders are expected to follow a similar positive pattern. The figures here: 79% anticipate increases, 16% see no change, and only 5% expect some decline.

Also on an upbeat note: Inflationary pressures are expected to remain quite modest—despite the steadily improving business picture. At latest report, only 38% of the surveyed factory executives were anticipating fourth quarter price increases compared to a year ago. That's pretty much unchanged from the 35% and 37% readings of six and three months ago, respectively.

But inventories—prodded by rising activity—are expected to rise a bit. Specifically, some 41% of

survey respondents now expect their stocks to rise in the current quarter—up 5% from just 3 months earlier.

Still further confirmation of strong business optimism comes from yet another survey by the Conference Board. It shows the Board's index of business confidence holding at 55—comfortably above the neutral 50 mark and the highest such reading in about a year.

CURRENT PRICES

Is the current price breather deceptive?

Uncle Sam's bellwether industrial price index took a breather last month.

But the lull could be deceiving. Reason: It was all due to new easiness in the energy sector. Eliminate this category, and the slow rise of this past spring and fall continued unabated.

The impact of the energy decline can best be appreciated by looking at the magnitude of the fall-off—more than 2% over the latest 30 day period (or better than 24% at annual rate). Zero in on fuel oil and gasoline, and even stronger declines were noted. About the only items to advance here were natural gas and LPG, where small increases were reported.

At the other end of the price spectrum were capital goods—where a solid 0.7 % rise was recorded over the past month. Blame the advance on both increasing demand and the fact that import prices in this area have been rising at an even faster clip. In any event, boosts hit such diverse product lines as heavy motor trucks, metal working machinery, oil and gas field equipment, textile machinery, and motors and generators.

Paper products also continued to move up—as increases were posted in paper, paperboard, office supplies, and paper boxes and shipping containers.

Textiles exhibited a similar pattern—with increases hitting both grey fabrics and synthetic fibers. All in all, textile mill product averages are now running better than 5% better than year-earlier levels.

Metals, too, remained firm—as increases were posted in the steel, aluminum, copper, cadmium, titanium, and steel scrap sectors. But there was

This month's breakdown

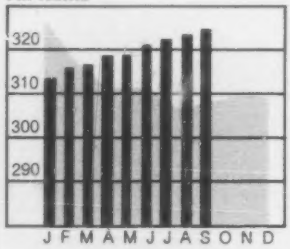
	Latest level (September)	% change from: Month ago	Year ago
Bearings	358.1	0.3	0.4
Bolts, nuts, etc.	278.7	−0.1	0.5
Chemicals, inorganic	292.7	0	−0.7
Chemicals, organic	353.1	−0.1	8.9
Concrete products	325.8	−0.2	0.3
Corrugated cartons	NA	NA	NA
Cutting tools, small	293.2	0	0.3
Electric lamps (bulbs)	352.9	−0.1	1.8
Electronic components	202.1	−0.8	−0.4
Fans and blowers	371.2	−0.1	1.5
Foundry and forge products	366.1	0.2	1.2
Fuel oil (residual)	646.6	−10.4	54.3
Furniture, commercial	327.9	0.2	3.0
Gasoline	408.7	−4.8	20.7
Glass, flat	238.3	0	2.5
Glass containers	401.3	−0.2	−0.2
Gypsum products	303.5	−1.7	−11.0
Hand tools	397.0	0.1	3.4
Hand tools, power driven	242.2	0.2	1.2
Industrial furnaces	402.4	0	1.7
Integrating and measuring instruments	240.5	−0.2	1.4
Internal combustion engines	358.4	−0.3	2.0
Lubricating oil	343.7	−0.4	−4.0
Lumber_millwork	332.8	0.2	3.5
Material handling equipment	299.9	0.3	0.9
Metal containers	360.7	0.6	−0.5
Metal mill shapes (nonferrous)	329.1	1.3	9.8
Metal tanks	304.8	0.7	2.2
Motors and generators	359.8	0.7	1.9
Motor trucks	308.1	−4.6	4.5
Office and store equipment	159.7	0.4	3.2
Paperboard	308.5	2.6	12.2
Paper boxes and shipping containers	291.8	1.4	7.0
Paper office supplies	242.5	0.7	1.8
Paint	284.7	0	0.8
Plastic resins	324.4	0.9	11.8
Precision measuring tools	278.4	0	3.2
Pumps and compressors	365.3	0	0.6
Refractories	375.2	0	0.8
Rubber belts and belting	328.3	0.2	−2.7
Scales and balances	235.4	0.4	1.2
Steel products	355.8	0.4	1.9
Switchgear	292.1	0.5	2.3
Textiles, synthetic fibers	149.2	0.5	−0.1
Textiles, gray fabrics	159.6	1.5	6.8
Tires and tubes	232.2	−0.1	−0.5
Transformers and power regulators	240.6	0.2	2.6
Welding equipment	305.1	0.2	1.1
Wire and cable	221.4	1.7	7.5

Industrial prices

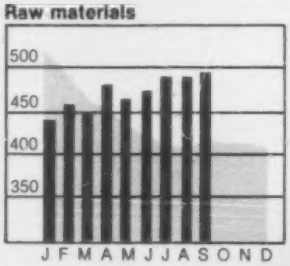
(Index: 1967 = 100)

1986 ■ 1987

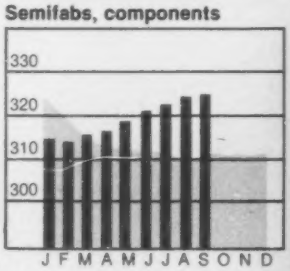
All items



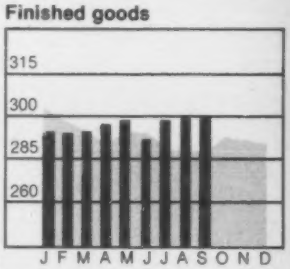
Raw materials



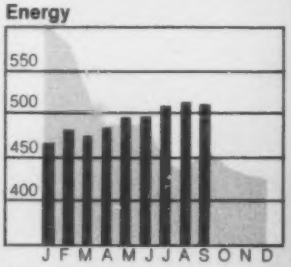
Semifabs, components



Finished goods



Energy



Source: Bureau of Labor Statistics

some offset here, notably in zinc, as previously struck facilities came back into production.

Chemicals and allied products were more mixed. Thus while organic and inorganic chemicals remained basically unchanged, plastics continued to rise—to the point where average resin tags are now running 12% above year ago levels.

Similar up and down movements hit the building materials sector. On the upside were lumber, plywood, sheet metal products, and nonferrous wire and cable. But offsetting these to some extent were declines in insulation material, gypsum, and structural clay products.

STEEL SCENE

A suprising shift

Earlier steel buoyancy is persisting into the final three months of the year—and could well spill over into early 1988.

Behind the shift to a basically sellers' market: a combination of factors including USX's slow production comeback after a long strike, some capacity rationalization, a modest drop-off in imports, and better than anticipated demand.

The latter is perhaps best characterized by the upbeat near-term estimates being given by both PMs and distributors. On the buying front, for example, some 25% of queried NAPM steel survey respondents expect to increase their intake of the metal over the next three months.

More important, those anticipating increases have been outweighing those planning on cutbacks by a close to 2:1 margin for two months running.

Distributors responding to the latest Steel Service Center Institute (SSCI) survey tell a similar story—with those expecting increases now far outnumbering those looking for a drop-off in near-term business.

Service centers also note smaller inventories. More to the point, some 64% believe that stock levels are about right compared to current shipments.

The stock levels reported by these distributors average out near a 3.1 month level. SSCI President Andrew Sharkey puts this into perspective, noting that this number is well below two and one year ago when the comparable inventory readings were 3.44 and 3.64 months, respectively.

Sharkey adds "the declines in inventory, although varying widely from company to company, are a reflection of current difficulties in finding some steel products, as well as concern about the rapid escalation in replacement costs." And these replacement costs

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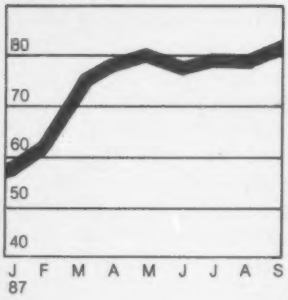
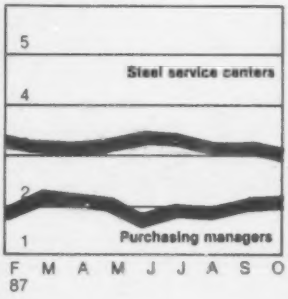
BUSINESS DATATRAK

Steel

Operating rates

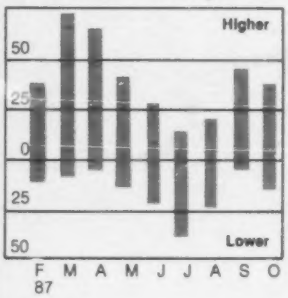


Inventories
(Months supply on hand)

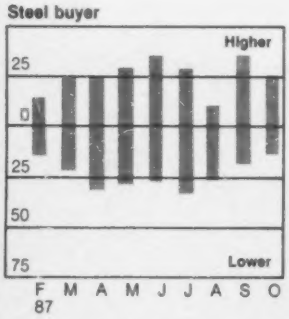


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



are expected to continue rising. Thus 21% of members polled said that replacement costs six months from now will be more than 5% above current replacement costs.

Much of this, of course, stems from the absence of foreign competition. Only 15% of the service centers now note lower foreign carbon steel prices—about half the 28% figure of this past March. And of this 15%, only 2% put the price break in excess of 10%.

A similar pattern is noted in stainless where none of the 23% who still report lower overseas prices put the advantage in excess of 10%. Contrast that to a year ago when virtually everybody was reporting lower prices.

The implication is clear: The weakening dollar has pretty much eliminated the advantage of going overseas. This also shows up in another finding—one that notes that two out of every three foreign suppliers are now less active in seeking new business.

More important, this import decline—combined with good demand and more capacity cutbacks—is making for an increasingly snug market and longer lead times.

If there's any doubt about this, take a look at the latest steel buyer supply assessment for the next six months. As of now, some 70% expect some headaches—in sharp contrast to the virtually problem-free assessment of just one and a half years ago.

Biggest concerns seem to be centered in plate, hot-rolled sheet, cold-rolled sheet, and coated sheet. But a few are also worried about structurals, rod and wire, heat-treated products, and even stainless.

Import prices
(Compared to domestic)

Steel buyers

ABOVE 29%
SAME 53%
SLIGHTLY BELOW 18%
SUBSTANTIALLY BELOW 0%

Service centers (carbon)

ABOVE 6%
SAME 79%
5-10% BELOW 13%
10-20% BELOW 2%
OVER 20% BELOW 0%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

PROCUREMENT STATUS

Leadtimes tightening up

Better-than-expected fourth quarter production activity is putting a bit of pressure on leadtimes.

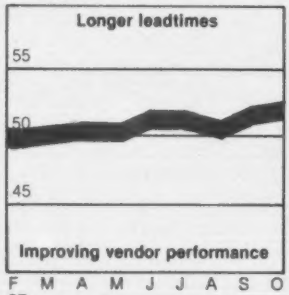
Steel has probably been the hardest hit, with several product lines reporting snugness. A few plastic resins are also somewhat harder to find.

On the other hand, nonferrous metal availability—most notably for zinc and lead—has improved with the ending of work stoppages. And even the current copper tightness seems manageable, with no one forced to do without the metal. Elsewhere, electronic components present a mixed picture.

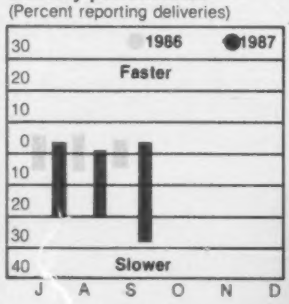
But as suggested above, the net effect has been a

Monthly procurement status report

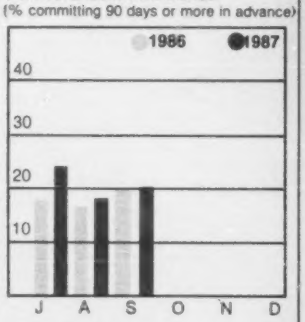
Leadtime index
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



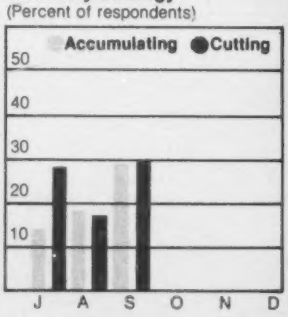
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

modest tightening up, with the number of leadtime extensions outpacing shrinkages. Upshot: *PW*'s exclusive leadtime index is again above the neutral 50 mark (at 52) for the second straight month.

Further confirmation of a slow drift away from a buyers' market comes from the NAPM Business Survey Committee where a significant 28% report delivery slowdowns—far more than the minuscule 4% who are getting things somewhat faster.

Meantime, these delivery uncertainties—combined with increasing production—have just about ended earlier inventory paring.

Nevertheless, no one seems about to push the panic button. Any near-term production advances will be modest and because to some extent these advances will be offset by new capacity. Thus while output may increase by as much as 4% at annual rate over the next few months, the increase in new production potential (2-3%) should be almost as great.

Not surprising then, PMs are still taking a conservative ordering stance. Indeed, an impressive 58% say they are still buying production materials on either a hand-to-mouth or 30-day basis—actually above the 55% average figures noted for the previous two months.

Leadtimes and availability

Chicago: Electronic leads have come to these weekly levels: Capacitors (12-16), MOS semiconductor (13-20), and integrated circuits (ICs—12-16). Also down: Offset paper.

Cleveland: Waterproof papers take about 4-5 weeks. Ditto, multiwall types. Corrugated is available in 2-3. No problems with softwood lumber and skids (1-3), alloying materials, polyvinyl chlorides, and paints (2-3), and cold-finish aluminum, 8.

Los Angeles: Typical prevailing leads (in weeks): Galvanized steel (12-14), grey iron castings (6-8), brass castings and standard valves (10-12), pumps (11-12), domestic fasteners (7-9), aluminum bar and sheet, lube oils, and steel strapping (2), linear ICs (30).

Houston: Field fabricated pressure vessels still take 8-18 months. Some extensions are noted for shop-fabricated towers and drums (6-7 months). No changes in plastic resins (8 weeks), stainless steel fasteners (2-4), and galvanized steel coils (18).

Philadelphia: Transistors are a bit tighter, but still at 6 weeks. Moving up to these new higher levels are surface mount resistors and capacitors, and double and multilayer printed circuit boards (10-12).

Pittsburgh: Pretty much status quo—with these average waits reported (in weeks): paper bags (4-6), corrugated boxes (3-4), wirebound boxes (4-5), drums, (1), waterproof papers (8), plastic packaging, steel strapping and most alloying metals (2-3).

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BUSINESS DATATRAK

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	11	11	8
Plate (Phil)	10	10	3½
Plate (Chgo)	13½	13½	4
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	11	11	6½
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	12	12	12
Structurals (Chgo)	5	5	4½
Structurals (Hous)	11	11	11
Tubing (Phil)	8½	8½	5½
Grey Iron Castings (LA)	7	7	7
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14	16	16
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	4½	4½	4½
Motors (Phil)	12	9	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10

	Now	Month ago	Six months ago
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	2½	2½
Plywood (Chgo)	5	5	3
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	¼	¼	¼
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2½	2½	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3

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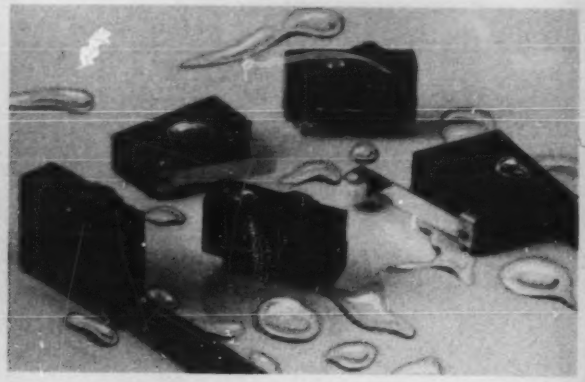

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	Now	Month ago	Six months ago
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	½	½
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	22	22	13
Aluminum Plate (Chgo)	14	14	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	22	22	13
Brass Castings (LA)	9	9	9
Brass Rods (Chgo)	7½	7½	9
Brass Sheet (Chgo)	11	11	6
Brass Tube (Chgo)	8½	13	17
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6

	Now	Month ago	Six months ago
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	3	3	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	4	4	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	50
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	8	8	8
Fasteners, Std. (Phil)	3	3	3
Heat Exchangers, Carbon-alloy Steel (Hous)	22	22	21
Heat Exchangers, Hi-pressure (Hous)	25	25	24
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	21	21	21
Pumps (LA)	11½	11½	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	4	4	4
Welding Supplies (Hous)	5	5	5

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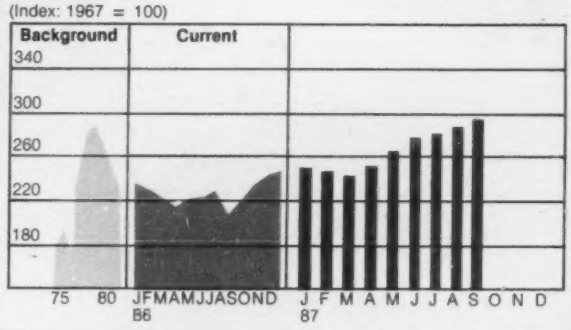
BUSINESS DATATRAK

Raw material price barometer

Latest month 292.5
Month before 288.3
Year ago 221.2

(Index: 1967 = 100)



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	23.95
Steel, bars, Pitts., cwt.	16.50	16.50	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	19.75	19.75	18.25
Steel, plates, H.R., Pitts., cwt.	19.75	19.75	18.25
Steel, sheets, C.R., Detroit, cwt.	26.90	26.90	25.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.835	.780	.555
Antimony, N.Y., dealer, lb.	1.12	1.12	1.12
Beryllium-copper, cost ingot, lb.	5.90	5.65	5.65
Brass, red, 85%, [sheet], lb.	1.50	1.45	1.29
Brass, yellow, [sheet], lb.	1.45	1.40	1.24
Cadmium, N.Y., dealer, lb.	2.25	2.20	1.07
Copper, electrolytic, wire bars, refd., lb.	.86	.81	.65
Copper sheet, over 24 in., lb.	1.59	1.54	1.38
Lead, common, N.Y., lb.	.42	.42	.24
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	355.00	330.00	178.00
Molybdenum, oxide, dealer, lb.	2.92	3.02	3.15
Nickel, cathode, dealer, lb.	2.48	2.50	1.74
Platinum, dealer, oz.	567.00	600.00	604.00
Silver, N.Y., oz.	7.56	7.56	5.71
Tin, N.Y., dealer, lb.	3.15	3.17	2.58
Zinc, Prime West, East St. Louis, lb.	.42	.43	.44
Zinc, die casting alloy, No. 3, lb.	.47	.485	.505
PAPER			
Uncoated book #3 offset, ton	860.00	860.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.98	17.01	16.34
Shipping sacks, ton	410.00	390.00	390.00
Solid bleached paperboard, ton	620.00	620.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	380.00	350.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.246	.236	.218
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.24	1.22	1.03
Cotton middling, 1", N.Y., lb.	.654	.682	.398
Printcloth, 48", 80x80, N.Y., spot. yd.	0.95	0.95	0.82
Army duck, 37", 13 oz., yd.	1.510	1.495	1.450
Blended printcloth, 64", 78x54, yd.	.95	.92	.78
20s combed yarns	2.03	2.03	1.74
Wool 64s, Staple, lb.	2.90	3.00	1.90
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	105.00	105.00	80.00
Benzene, petroleum, tanks, Houston, gal.	0.92	0.93	0.81
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.81	.81	.91
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.32	.32	.28
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.320	.295	.270
Polyethylene resin, low density liner film grade (market place), lb.	.345	.345	.255
Polypropylene, homopolymer grade (market price), lb.	.440	.440	.320
Polystyrene, general purpose grade (market price), lb.	.520	.520	.330
Polyvinyl chloride, pipe grade (market price), lb.	.365	.360	.275
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.40	.38	.22
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.800	.770	.770
Xylene tanks, gal.	.750	.780	.800
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	338.90	329.60	332.65
Lumber 2x2 pine, mbf, cl	334.45	335.95	315.20
Plywood, plyform, ⅜", msf, cl	584.60	580.65	592.90
Plywood, ¼", msf, cl	391.00	385.95	390.10
Cement, bulk, ton, tl	63.73	64.25	63.43
Sand, ton, cl	7.14	7.21	6.62
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	49.13	49.08	45.96
Crushed stone, 1½", ton, cl	8.32	8.30	7.83
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.90	0.90	0.82
Gypsum sheathing, ½"x1"x8", msf, tl	228.46	228.23	215.07
Brick, common, per thousand, tl	198.26	198.26	186.01
Asphalt paving, AC-20	139.34	137.59	136.69
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.50	7.50	7.36
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	15.25	15.50	11.00
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.00	.18.00	14.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.588	.565	.360
Gasoline, 94 oct., reg., Chi., tank car, gal.	.538	.541	.415
Heating oil, No. 2, Chi., bulk, gal.	.555	.530	.411
Heating oil, No. 2, N.Y., bulk, gal.	.603	.503	.420
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.555	.510	.418
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.260	.245	.240
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	114.00	94.00	76.00
Steel, No. 1 hvy., dlvd., Chi., ton	115.00	90.00	70.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.785	.730	.545
Copper, No. 2, East, wholesale buy, dlvd., lb.	.700	.650	.465
Brass, red, East, wholesale buy, dlvd., lb.	.745	.690	.505
Brass, yellow, East, wholesale buy, dlvd., lb.	.365	.365	.310
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.510	.495	.340
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.575	.560	.360
Zinc, old, East, wholesale buy, dlvd., lb.	.200	.200	.170
Lead, clean solids, East, wholesale buy, dlvd., lb.	.275	.275	.140
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	35.00	40.00	25.00
Paper, old corrug. box, dlr., N.Y., ton	20.00	25.00	23.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.12	.12	.09
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.23	.23	.11

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Shipper discounts to stay

There may be a modest increase in freight costs in the offing, but most of the transportation buyers responding to *Purchasing-World*'s new nationwide survey aren't all that worried.

While few respondents see a repeat of the current year when rate wars actually brought on overall rate declines, the general feeling is that increases in 1988 will be modest.

Discounting is also expected to remain a way of life. As one shipper notes, "We've still got plenty of bargaining leverage. Negotiations may start from a slightly higher base but reductions off list should remain impressive—especially in the trucking area."

Behind the continuing optimism are lingering overcapacity, intra- and intermodal competitive infighting, and better management of both incoming and outgoing shipments. That's not to say that anyone is complacent. Carrier service, for example, still presents some problems—and there's a lot more to be done to minimize cost and maximize efficiency.

Here's a detailed rundown on how shippers rate the current transportation situation—and what they see for the quarters immediately ahead.

■ **Current situation:** It has been a surprisingly good year as more than half of those queried report either no overall increase or some modest decline. And more than nine in ten say they are getting discounts—of as much as 40-45% off official tariffs.

These discounts are said to be especially prevalent in the less-than-truckload (LTL) sector. It's not surprising that nearly half of those using LTL say current costs have dipped below those of a year ago.

Shading is also occurring in the truckload (TL) area. But most respondents say that really massive off-list buys are a lot harder to find here. They do still contend, however, that shopping around and hard-nosed bargaining can still pay off.

■ **Rates into 1988:** The modest increases anticipated are highlighted by the fact that while roughly two-thirds of survey respondents expect to pay a bit more next year, not a single one says the boosts will be more than 6%. More significant, the average increase is only expected to be 3-4%.

Also worth noting: Increases will be evenly spread out around LTL, truckload, rail, barge, and air cargo areas. Truckers, for example, are now in the process of pushing for a 3.5% LTL boost for the fourth quarter 1987—and at least part of it is expected to hold.

■ **Contractual agreements:** About 40% of queried transportation buyers say they are putting more emphasis on contractual pacts. For some of these firms, anywhere from 75-100% of all shipments are already under such pacts. The savings can vary but several respondents put breaks as high as 25-50%.

Some buyers also say they are using specialists such as brokers, shipping associations, and agents—and savings are said to run anywhere from 2-20%.

■ **Area of responsibility:** The majority of purchasing professionals say they are in charge of outbound and inbound freight. Seven out of ten also say they are responsible for negotiating transportation contracts.

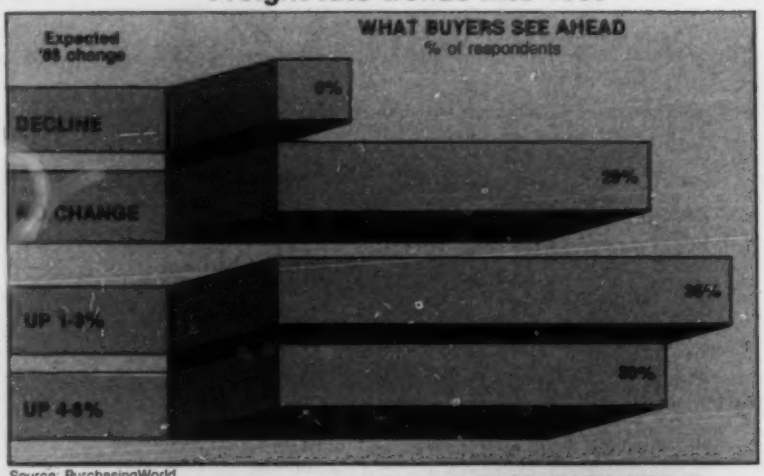
■ **Carrier performance:** The general feeling is that service is "good" rather than "excellent." Some of the problems noted include difficulty in tracing shipments, carrier bankruptcy, consistency, damaged goods, on-time deliveries, and a possible shortage of qualified drivers.

On the latter point, Jim Piecherowski, corporate transportation manager of Miles Inc., Elkhart, IN, notes that "Our main concern in 1988 will be the availability of good drivers. We feel that the push for road safety and national licensing (both of which are certainly needed and good for the industry) will deplete the available pool of labor and translate into additional cost."

In order to prepare for this, Miles is positioning itself with truckload carriers who maintain their own labor forces rather than depend on the casual market.

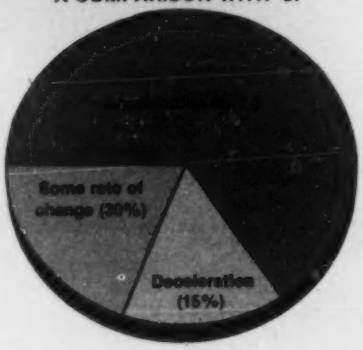
Other strategies to insure reliable, cheap service include 1) consolidation of carriers, 2) multi-year fixed agreements, and 3) working with manufacturing and marketing to upgrade shipping modes (such as LTL into full truckload shipments).

Freight rate trends into 1989



Source: PurchasingWorld

A COMPARISON WITH '87



Buying gas for less

Your company's gas bill, like other bills, comes in, gets checked over and paid. And it probably doesn't get a second thought.

But what if there were a way to buy the natural gas your business needs and cut the cost by as much as 40%? And not cause any additional headaches, or require extra manpower?

Too good to be true? Not according to David Doctor, president of EnTrade Corp., Louisville, KY. Assisting companies that want to buy gas on the spot market and move it over the nation's pipeline system is his business—and it's a growing business.

Transportation as a portion of total interstate gas deliveries

Year	Transportation as a percentage of total interstate deliveries	Total interstate deliveries (TCF/Annum)
1982	3%	13.7
1983	5%	13.6
1984	9%	13.2
1985	17%	12.7
1986/2Q	41%	—

And it's happening

One company which has used EnTrade's help to take advantage of the spot market is TRW. Jonathan Stegner, manager of purchasing, has a special assignment on this cost reduction project to consult with TRW plant locations on reducing costs through natural gas buying. Recently he spoke with *PurchasingWorld* about his company's experience.

According to Stegner, TRW buys gas at the wellhead and arranges for its transportation on a plant-by-plant basis. This method, in use for a little more than a year, is saving the company about 20%—the target set when TRW first went into the project.

Is it convenient to buy this way? Stegner says that there is a little added burden for purchasing, there are a couple more invoices to read and justify—depending on how many suppliers are involved—but there has been no increase in manpower, and he recommends it strongly to the TRW plants which come to him for advice on gas purchasing.

It's still a new market, still learning to respond to user needs, Stegner says. And he feels that companies like EnTrade, which survive the inevitable shakeout in new business areas, will probably do so based on their responsiveness to the market.

Acceptance around TRW has been very good, he says. The large plants were already well aware of their energy costs, but smaller ones, (30,000+ MCF users) were not necessarily aware of how much could be saved.

See it grow

As the chart shows, the amount of transportation (of spot market gas) as a percentage of total interstate deliveries is growing rapidly, while the total of interstate deliveries is declining slightly. Further proof is found in this example: Early last summer, transportation services opened to the California markets. Competition was fierce for the large markets. Prices, which had been slightly higher than the rest of the nation's, decreased rapidly. When the wellhead prices in the West Texas and Oklahoma panhandle area which served California fell below the prices being realized in Midwest markets, a certain amount of gas was redirected to those markets. This pushed prices down in the Midwest, causing a drop in prices in Louisiana, which also serves the Midwest. The Louisiana production area also serves the eastern markets, and as a result, the price cut initiated on the West Coast rippled all the way to the east in less than two weeks.

And the good news is...

Doctor says that at least in the near term, "you will always be able to acquire the amount of gas for which you are willing to pay." He also maintains that the spot market's rise will do away with shortages and inappropriate pricing. It will not allow gas prices to increase or decrease dramatically in the future, nor will it allow acute shortages or large surpluses to exist after this transition period.

On a macro scale, Doctor maintains, the spot market will assure that supply, demand, and price can achieve the right balance at any particular time. The spot market is flourishing today because low prices associated with a large surplus are attracting many to participate. If it is to continue, he says, a structure must be developed to reliably provide information to and ease of operation for all participants. The marketing, transportation, law, and supply staffs have done their work—now it's up to the operations and accounting people to provide the base for continuing operation.

A little history

What is the spot market? How did it develop and where will it go from here? According to David Doctor, president of EnTrade, a company which specializes in aiding industrial firms in buying gas on the spot market and moving it over the existing pipeline system, the term spot market covers almost all the transactions not made under a pipeline's sale tariff. (Tariff transactions are the ones we're most familiar with.) Spot transactions are basically point-to-point transactions in which a single producer or groups of producers deliver gas for a particular customer's needs.

To understand the spot market, Doctor says, it's necessary to understand some history. Around the turn of the century, when oil was being discovered in commercially marketable quantities, natural gas was flared off as a waste product; pure gas wells were were capped. By the early 1900s, natural gas was replacing gas produced from coal. By the 1920s, natural gas could be produced in commercially marketable quantities.

In the late 1920s and 1930s pipelines pushed across the United States from mid-continent and Gulf Coast production areas to the Midwest and Northeast metropolitan markets. In 1938, the Natural Gas Act placed interstate natural gas pipelines under the regulation of the newly formed Federal Power Commission.

A 1954 Supreme Court ruling extended the Federal Power Commission's jurisdiction to fixing the wellhead price of gas. The quadrupling of gas prices in the 1970s gave gas producing companies incentives to divert their attention to development of domestic oil. By the mid-1970s, the swing in supply/demand balance was being felt.

The Natural Gas Policy Act of 1978 established a new plan: Prices for gas produced before 1978 remained low, but gas produced after 1978 brought higher prices and annual price hikes. This renewed incentives for the production of natural gas for interstate markets.

Rising consumer prices brought conservation, a search for alternate fuels, and reduced demand. According to the American Gas Association, the surplus of natural gas in this country is now approximately 2.5 trillion cubic feet (TCF).

This combined action of consumers and suppliers brought about today's spot market and, Doctor says, will eventually lead to the self-regulation of prices and supply in the natural gas industry.

Transportation rules, too

The Natural Gas Policy of 1978 included transportation regulations and provided specific authority for intrastate pipelines and local distribution companies to arrange for transportation on the interstate pipeline systems. In 1979, further orders allowed industrial users to purchase and have their own gas transported.

Even so, some industries were employing conservation measures, closing plants, and even relocating to areas where natural gas costs were lower. The third essential ingredient for the spot market to develop was the pipelines' willingness to provide transportation service.

Mounting supply surpluses and unhappy producers on the one end of the pipeline and increasing prices and unhappy customers on the other end caused many interstate pipelines to voluntarily institute transportation programs. Then in 1985, the Federal Energy Regulatory Commission issued Order 436, which formalized all previous experimental programs and allowed any party to transport natural gas on an interstate pipeline, providing the pipeline voluntarily adopted the provisions. Most pipelines have adopted the provisions, leaving the way clear for the operation and maintenance of a viable spot market. **Circle 243** ***PW***